

ORIGINAL



MEMORANDUM
RECEIVED

2012 JUL -3 A 11: 28

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

DATE: July 3, 2012

RE: STAFF REPORT FOR TRICO ELECTRIC COOPERATIVE'S APPLICATION
FOR AUTHORIZATION TO ISSUE DEBT IN THE AMOUNT OF \$50,000,000
AND TO PREPAY CERTAIN EXISTING DEBT.
(DOCKET NO. E-01461A-12-0056)

Attached is the Staff Report for the Trico Electric Cooperative's application for authority to borrow funds. Staff recommends approval.

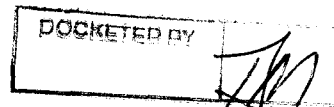
Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before July 13, 2012.

SMO:JAC:tdp

Originator: John A.Cassidy

Arizona Corporation Commission
DOCKETED

JUL 03 2012



Service List for: Trico Electric Cooperative
Docket No. E-0146A-12-0056

Mr. Michael Patten
Roshka DeWulf & Patten, PLC
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, AZ 85004
Attorney for Trico Electric Cooperative.

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

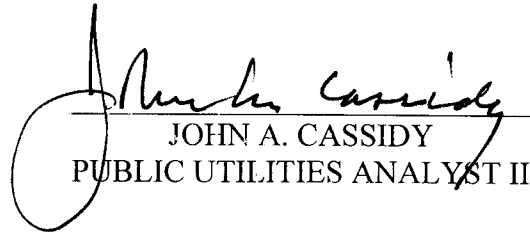
**TRICO ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01461A-12-0056**

**APPLICATION FOR AUTHORITY
TO
INCUR LONG-TERM INDEBTEDNESS**

JULY 3, 2012

STAFF ACKNOWLEDGMENT

The Staff Report for Trico Electric Cooperative, Inc., Docket No. E-01461-A-12-0056, is the responsibility of the Staff members listed below. John A. Cassidy is responsible for the financial analysis.



JOHN A. CASSIDY
PUBLIC UTILITIES ANALYST II

**EXECUTIVE SUMMARY
TRICO ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01461A-12-0056**

Trico Electric Cooperative, Inc., ("Trico") is a member-owned cooperative and a Class "A" public service corporation providing electric distribution service to 40,541 metered customers in parts of Pima, Pinal and Santa Cruz Counties, Arizona. On February 16, 2012, Trico filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to prepay and reissue debt in the amount of \$50,000,000.

Staff recommends:

- Granting authorization to prepay an amount not to exceed \$50,000,000 of existing amortizing RUS debt and to incur amortizing replacement debt with CFC and/or CoBank in an equal or nearly equal amount and with a maturity date(s) the same or nearly the same as the refinanced obligations at a blended average interest rate less than 5.0 percent per annum.
- Granting Trico authorization to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 in connection with any indebtedness authorized in this proceeding.
- Establishing an expiration date for any unused authorization to incur debt granted in this proceeding at December 31, 2014.
- Authorizing Trico to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.
- Directing the Company to file as a compliance item in this Docket, within 30 days of the execution of any financing transaction authorized herein, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted.
- Directing the Company to provide to the Utilities Division Compliance Section, a copy of any loan documents executed pursuant to the authorizations granted herein, within 30 days of the execution of the loan, and also to file a letter in Docket Control verifying that such documents have been provided to the Utilities Division.

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTION	1
PUBLIC NOTICE	1
BACKGROUND.....	1
COMPLIANCE	1
PURPOSE AND DESCRIPTION OF THE REQUESTED FINANCING.....	1
FINANCIAL ANALYSIS	2
DEBT SERVICE COVERAGE	2
CAPITAL STRUCTURE	2
ENCUMBRANCE	3
CONCLUSION AND RECOMMENDATIONS.....	3

SCHEDULE

FINANCIAL ANALYSIS	JAC-1
--------------------------	-------

ATTACHMENT

AFFIDAVIT OF PUBLICATION	A
--------------------------------	---

INTRODUCTION

On February 16, 2012, Trico Electric Cooperative, Inc., (“Trico”), filed an application with the Arizona Corporation Commission (“Commission”) requesting authorization to prepay and reissue debt in the amount of \$50,000,000. Trico requests authorization to replace existing United States Department of Agriculture Rural Utilities Service (“RUS”) debt of \$50,000,000 with new debt priced at more reasonable terms from two different lenders, National Rural Utilities Cooperative Finance Corporation (“CFC”) and CoBANK, ACB (“CoBank”), with each lender expected to refinance approximately \$25,000,000.

PUBLIC NOTICE

On June 21, 2012, the Company filed an affidavit of publication verifying public notice of its financing application. The Applicant published notice of its financing application in the *Arizona Daily Star* on June 14, 2012. The *Arizona Daily Star* is a daily newspaper of general circulation in the county of Pima, State of Arizona. The affidavit of publication is attached along with a copy of the Notice.

BACKGROUND

Trico is a member-owned cooperative and a Class “A” public service corporation providing electric distribution service to over 40,500 metered customers in parts of Pima, Pinal and Santa Cruz Counties, Arizona. The Commission granted Trico authority to borrow \$36,043,000 from the RUS, at a cost of 5.0 percent per annum for a term of 35 years, in Decision No. 64055 (September 27, 2001). Subsequently, Trico was granted authority to borrow an additional \$57,992,000 from the RUS, at a cost of 5.0 percent per annum for a term of 35 years, in Decision No. 67412 (November 2, 2004). At present, Trico has \$64,467,866 in RUS debt outstanding, of which \$20,438,191 matures in 25.1667 years (on March 1, 2037), and \$44,029,675 in 27.6 years (on August 2, 2039).

COMPLIANCE

The compliance database currently shows no delinquencies for Trico.

PURPOSE AND DESCRIPTION OF THE REQUESTED FINANCING

Trico’s stated rationale for the proposed refinancing is cost reduction. By replacing existing debt with new debt obligations having more favorable terms, over the life of the loans to be refinanced, Trico anticipates total interest savings of approximately \$3.7 million and, when combined with projected patronage capital credits anticipated from CFC and CoBank, total potential savings of \$9.3 million.

As contemplated in its financing application, Trico will borrow up to \$50,000,000 to prepay existing RUS loans, without penalty, and issue new evidence of indebtedness to CFC and/or CoBank to replace those RUS loans. The new debt will match the remaining maturities of the RUS loans to be prepaid, and it will be amortized over periods of 25.1667 and 27.6 years at a blended average interest rate of 4.5 percent per annum. Trico states that it will not refinance its RUS debt if the economics are unfavorable to Trico members. The terms of the anticipated CFC and/or CoBank loans provide for encumbrance of all Trico's assets and revenues. The application does not request authorization to extend total outstanding debt.

FINANCIAL ANALYSIS

Staff's analysis is presented in Schedule JAC-1. Column [A] of the schedule reflects Trico's historical financial information for the year ended December 31, 2011, and Column [B] presents pro forma financial information which modifies Column [A] to reflect the refinancing of \$50,000,000 in existing RUS debt at a cost of 5.0 percent per annum with new debt from the CFC and/or CoBank at a blended rate of 4.5 percent per annum and amortized over the same periods (25.1667 years and 27.6 years) as the refinanced obligations.

Debt Service Coverage

Debt service coverage ratio ("DSC") represents the number of times internally generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds is needed to avoid default.

Schedule JAC-1, Column [A] shows a 1.39 DSC for the year ended December 31, 2011, and a pro forma 1.42 DSC for the scenario described above for Column [B]. The increase in DSC resulting from the refinancing suggests that Trico's present ability to internally generate sufficient cash to meet its obligations will modestly improve as a consequence of the proposed refinancing.

Capital Structure

As of December 31, 2011, Trico's capital structure consisted of 2.0 percent short-term debt, 64.1 percent long-term debt, and 33.9 percent equity (Schedule JAC-1, Column [A], lines 19-25). Staff calculated a pro forma capital structure for the scenario described above for Column [B], which reflects Trico's proposed refinancing, and it is composed of 2.1 percent short-term debt, 64.1 percent long-term debt and 33.9 percent equity (Schedule JAC-1, Column [B], lines 19-25). The refinancing should have little impact on Trico's capital structure.

Encumbrance

The terms of the anticipated loan provide for encumbrance of all the Company's assets and revenues. A.R.S. § 40-285 requires public service corporations to obtain Commission authorization to encumber certain utility assets. The statute serves to protect captive customers from a utility's act to dispose of any of its assets that are necessary for the provision of service; thus, it serves to preempt any service impairment due to disposal of assets essential for providing service. Pledging assets as security typically provides benefits to the borrower in the way of increased access to capital funds or preferable interest rates, and it is often an unavoidable condition for procurement of funds for small or financially stressed entities.

CONCLUSION AND RECOMMENDATIONS

Staff concludes that Trico's proposal to refinance \$50,000,000 of existing RUS debt with new debt obligations from CFC and/or CoBank having more favorable terms is appropriate.

Staff further concludes that for Trico to prepay a portion of its existing RUS debt and to refinance that debt with more favorable terms as proposed in the application is within Trico's corporate powers, is compatible with the public interest, will not impair its ability to provide services and is consistent with sound financial practices.

Staff recommends:

- Granting authorization to prepay an amount not to exceed \$50,000,000 of existing amortizing RUS debt and to incur amortizing replacement debt with CFC and/or CoBank in an equal or nearly equal amount and with a maturity date(s) the same or nearly the same as the refinanced obligations at a blended average interest rate less than 5.0 percent per annum.
- Granting Trico authorization to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 in connection with any indebtedness authorized in this proceeding.
- Establishing an expiration date for any unused authorization to incur debt granted in this proceeding at December 31, 2014.
- Authorizing Trico to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.
- Directing the Company to file as a compliance item in this Docket, within 30 days of the execution of any financing transaction authorized herein, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted.

- Directing the Company to provide to the Utilities Division Compliance Section, a copy of any loan documents executed pursuant to the authorizations granted herein, within 30 days of the execution of the loan, and also to file a letter in Docket Control verifying that such documents have been provided to the Utilities Division.

FINANCIAL ANALYSIS

Selected Financial Information

	[A] ¹ <u>12/31/2011</u>		[B] ² <u>Pro Forma</u>	
1 Operating Income	\$	3,317,543	\$	3,317,543
2 Depreciation & Amort.		6,947,262		6,947,262
3 Income Tax Expense		0		0
4				
5 Interest Expense		6,281,573		6,015,567
6 Repayment of Principal		1,082,083		1,211,519
7				
8				
9				
10				
11 DSC				
12 [1+2+3] ÷ [5+6]		1.39		1.42
13				
14				
15				
16				
17 Capital Structure				
18				
19 Short-term Debt		3,913,248 2.0%		4,042,684 2.1% ³
20				
21 Long-term Debt		126,333,910 64.1%		126,204,474 64.1%
22				
23 Common Equity		66,770,309 33.9%		66,770,309 33.9%
24				
25 Total Capital		\$197,017,467 100.0%		\$ 197,017,467 100.0%
26				
27				

28 ¹ Column [A] is based on financial information for the year ended December 31, 2011.

29 ² Column [B] is Column [A] modified to reflect the proposed refinancing of \$50,000,000 in existing 5 percent RUS debt with debt having identical
30 25.1667 and 27.6 year maturities at a cost of 4.5 percent per annum.

31 ³ Pro Forma Short-term Debt represents the first year principal repayment subsequent to the consumation of the proposed refinancing.

ARIZONA DAILY STAR

Tucson, Arizona

STATE OF ARIZONA)
COUNTY OF PIMA)

Debbie Capanear, being first duly sworn deposes and says: that she is the Legal Advertising Representative of **TNI PARTNERS**, a General Partnership organized and existing under the laws of the State of Arizona, and that it prints and publishes the Arizona Daily Star, a daily newspaper printed and published in the City of Tucson, Pima County, State of Arizona, and having a general circulation in said City, County, State and elsewhere, and that the attached and was printed and

Legal Notice

published correctly in the entire issue of the said Arizona Daily Star on each of the following dates, to-wit:

JUNE 14, 2012

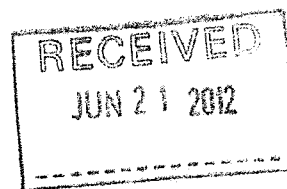
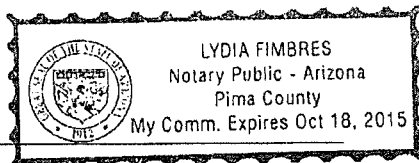
Debbie Capanear

Subscribed and sworn to before me this 19 day of

June, 2012

Lydia Fimbres
Notary Public

My commission expires

AD NO. 7800488

IN THE MATTER
OF THE APPLICATION OF
TRICO-ELECTRIC COOPERATIVE,
INC. FOR AUTHORIZATION TO
PREPAY AND REISSUE DEBT IN THE
AMOUNT OF \$50,000,000
DOCKET NO. E-01461A-12-0056

Trico Electric Cooperative, Inc. ("Applicant") filed an Application ("Application") on February 16, 2012, with the Arizona Corporation Commission ("Commission") in Docket No. T-01461A-12-0056 requesting authorization to Prepay and Reissue Debt in the amount of \$50,000,000 to replace existing debt with new debt obligations that have more favorable terms for Trico. The Application is available for inspection during regular business hours at the Commission's offices at 1200 West Washington Street, Phoenix, Arizona 85007, and at the office of Applicant's legal counsel, Michael W. Patten, Esq., Roshka DeWulf & Patten, PLC 400 East Van Buren Street, Suite 800, Phoenix, Arizona 85004. Intervention in the Commission's proceedings on the application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon Applicant and which, at a minimum shall contain the following information: (1) The name, address and telephone number of the proposed intervenor and of any person upon whom service of documents is to be made; (2) A short statement of the proposed intervenor's interest in the proceeding; (3) Whether the proposed intervenor desires a formal evidentiary hearing on the application and the reasons for such a hearing; (4) A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant. Intervention shall be in accordance with A.A.C. R14-3-105, except that all Motions to Intervene must be filed on or before the 15th day after this notice.

Publish June 14, 2012
Arizona Daily Star